Case Study No 3

Co-operative Pastoral Agent

Co-operative: Victorian Producers' Co-operative Company Limited - a co-operative that failed and why

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Date
December 1998

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Co-operative Federation of Victoria Ltd

One of Victoria's oldest co-operatives eventually ran into financial difficulties and was taken over by rival Elders in 1999 - the Victorian Producers' Co-operative Company Limited (VPC).

VPC was formed in 1910 by a group of Victorian farmers to escape what the founders termed "the tyrannical conditions imposed on them by middlemen in the sale of their produce and the purchase of their requirements."

VPC's business was that of a pastoral agent selling wool, livestock and real estate (mostly farms) for commission, providing short term seasonal finance to farmers, retailing farm supplies (veterinary products, chemicals, fencing materials etc)and insurance services.Up until the 1940's it also had a big business in wheat which was terminated when the Australian Wheat Board was established to take statutory control of the marketing of the wheat crop.

The business was conducted through approximately 50 branches spread through country Victoria, the Riverina District of NSW and the South East of SA with wool stores in Melbouyrne, Geelong and Portland.At its peak in the late 1980's, it's annual turover exceeded $500 million, it employed over 300 permanent and several hundred casual and part-time employees and boasted over 5000 members. It was a substantial business in South East rural Australia.

40 Year Essential Problem

The business was difficult; subject to varying seasonal conditions and cyclical movements in commodity prices. Although there were some booms, the essential problem over the last 40 years has been the long-term decline in the wealth of the pastoral industry, principally wool, which VPC serviced.Over this period about a dozen major pastoral companies went out of business in South East Australia through take-over and amalgamations as the industry adjusted to this decline.

During the 1980's there was a major rationalization when Elders, under John Elliot, took over many companies. This created opportunities for VPC as farmers became concerned over the dominance of Elders, and the retrenchments and unsettling of the staff of companies taken over, enabled VPC to recruit staff with a strong following of clients. From the late 1970's to 1990 VPC's business doubled.

In 1987 Doug Shears, who had previously attempted to take-over the fertilizer co-op Pivot, mounted a take-over for VPC. Shears was a little late as VPC had just taken steps that yeat to remove some 4000-5000 small inactive shareholders from its register who might have been attracted by his offer and the take-over was easily defeated.

Sealing VPC's Fate

While VPC had been able to cope, albeit with some difficulty, with the problems of the industry which it serviced, two major events in 1990 and 1991 combined to seal VPC's fate eight years later. The first was the purchase of the Deniliquin Stock & Station Agency, McNamara Ellis and the second was the collapse of the Wool Reserve Price Scheme.

All business carries some risk and some investments do not work, but the purchase of McNamara Ellis should never had been made. VPC already had a good branch at Deniliquin and McNamara Ellis's business was known to be based on speculative livestock trading. In 1990 VPC wrote off $2 million arising from the speculative trading of McNamara Ellis.

With the collapse of the wool market, sales fell from 173,000 bales at an average price of $951 in 1990 to 152,000 bales at $745 in 1991. Over the two years, 1990 and 1991, VPC lost $5.7 million. Further losses occurred in 1992 and 1993 but profits returned in 1994 with a significant lift in cattle prices and in 1995 with an improvement in wool prices. This was followed by another large loss in 1996 with a sharp drop in cattle prices and further losses in 1997 and 1998. The end result was that since 1989 shareholders funds fell from $16.7 million to $2.7 million at 30 June 1998.

During this very difficult period since 1990 and particularly over 1997 and 1998 VPC engaged in a heavy cost-cutting program and staff were retrenched. At the same time, it undertook a major upgrade of it's outmoded computer system which, with reduced staff resources, ran into difficulties and took much of management's time.

Co-op Performance

How has VPC performed as a co-op? Unfortunately the answer is not good in the later years of its life. VPC suffered from two disadvantages to perform well as a co-op. Firstly, its wide area of operations throughout Victoria, Southern NSW and the South East of SA meant it did not have the cohesiveness of a local co-op. Secondly, its age, 88 years, meant it had lost the enthusiasm and sense of purpose of its founders.

The person who had the most influence on VPC was Mr. J.P.Webb. He commenced with VPC on its formation in 1910 and retired in 1976 at over 80 years of age after having been Chairman and Managing Director since 1947. He was also a Melbourne Harbour Trust Commissioner and Webb Dock, which featured so prominently in the 1998 maritime dispute, is named after him.

Shrewd Autocrat

He was evidently a capable and shrewd man as well as an autocrat who stifled people with ideas.I have not been able to establish when there was last a contested election of directors, none certainly since I commenced at VPC in 1977. The tradition has been for directors to remain in office until they died or retired when the position was filled by a board appointment as a casual vacancy. The election process was not helped by the articles requiring the nomination to be signed by 20 members.

I suspect that Mr. Webb only appointed men who, while of good reputation, he thought he could dominate. One director, who is long dead, told me that at his first board meeting he asked Mr. Webb a question and was handled so roughly he never asked another. There is no doubt that the board should never have allowed Mr. Webb to remain in office for so long and the combined position of Chairman and Managing Director was an unhealthy concentration of power. At the end of his reign, VPC, while financially sound, was in decline. It was being run by an old man and a board that did not recognise the decline.

Just Another Business

Somewhere along the line before or during Mr. Webb's reign, VPC started to do business with non-members. This can appear attractive as it brings the benefit of volume business and many co-ops, including the great consumer co-ops in the UK, have gone down that route. However, in doing so, they risk the damage of losing their sense of purpose as a co-op serving their members needs and become just another business.

VPC finished up receiving less than 50% of its business from members. In fact, there was very little incentive for its clients to become members. Some of the large non-member clients who were able to negotiate reduced commission charges, received more benefit than members. The directors and management had no idea as to what the objectives were, other than to remain financially viable at which, of course, they were unsuccessful.

VPC had become just another pastoral company, albeit owned by farmers, trying to make a dollar. It continued to hang on to the livestock saleyard auction system which many producers were deserting, not because it necessarily produced the best results for its members, but because it was thought most profitable for VPC and comfortable for its staff. Apart from an academic exercise of drawing up a mission statement reflecting co-operative objectives, there was no debate about objectives and little or no co-op education of directors, staff and clients.

Coming Forty Years

VPC's demise was not quick. It had been coming for forty years with the decline in the wealth of the pastoral industry, which it served, and the directors who did not understand VPC's purpose and were not able to develop appropriate policies for a changing world.